

# Request for City Council Committee Action from the Department of Intergovernmental Relations

**To:** Council Vice President Robert Lilligren and Member Elizabeth Glidden, Chair, Intergovernmental Relations Subcommittee and Members of the Committee

**Referral to:** Committee of the Whole

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Prepared by: IGR Staff	
Approved by:	
Presenters in Committee: Gene Ranieri, Intergovernmental Relations Department	

Subject: Amendment to City of Minneapolis 2013 State Legislative Agenda

Recommendation: Amend City of Minneapolis 2013 State Legislative Agenda by replacing entire Local Government Finance section starting on Page 2 with the following language:

#### **Local Government Finance**

Local government's main source of revenue is the property tax, as Minnesota has a tax revenue system that centralizes most tax authority, collections and disbursements with the state. Cities and counties may not impose non-property taxes, such as sales tax, without legislative approval.

A large portion of the taxes raised within the boundaries of Minneapolis go directly to the state. In 2010 the State received around \$485.975 million from general sales taxes collected in Minneapolis. In addition, according to the Minnesota Department of Revenue, a State property tax on commercial-industrial properties generated around \$76.8 million for Minnesota in 2010 just from Minneapolis properties. That's about 10 percent of all the commercial-industrial property tax collected by the State for 2010.

To compensate for restricting cities' ability to impose local non-property taxes, and to enable cities with high needs and low property-wealth to provide services at a reasonable tax rate, the State redistributes tax revenue to local government with a complex system of intergovernmental aids and other state-local revenue sharing programs. Local government aid (LGA), education aid, county program aid, and fiscal disparities (which applies to the metro area and Iron Range) are some of these programs.

Over time, the state-local revenue sharing relationship has seriously eroded and become extremely unstable. In 2003, LGA from the State comprised 40 percent of Minneapolis' general fund revenue, while property taxes provided 29 percent. In 2012, Local Government was 19 percent of Minneapolis' general fund revenue while property taxes provided 50 percent. And, during this time, Minneapolis has continued to make deep budget cuts, with its 2012 budget 9 percent smaller than it was in 2008 after adjusting for inflation, and city work force decreased by 485 full-time jobs.

While Minneapolis has a population of approximately 390,000, it also provides public services to 140,000 workers who commute daily to the city. Minneapolis is home to several colleges and universities including the University of Minnesota. It also hosts a large number of cultural, and entertainment facilities that draw patrons from all parts of the region, the state and the nation; many of these facilities are exempt from property taxes. In developing its public service level, Minneapolis, like all regional centers, must consider its population as well as the commuters and visitors.

#### Principles for property tax and state-local fiscal relationship reform

- Reform should involve all three major taxes: sales, income, and property. Without reform to more than one tax, property tax reform will only shift burdens from one property class to another.
- Minneapolis supports the principles of accountability, certainty, adequacy, flexibility, and equity, as articulated by the League of Minnesota Cities report "Renew the Partnership", as guiding principles for a state-local guiding partnership.
- Rebalance the state-local fiscal relationship, recognizing the support of state revenues generated by local government and the need to redistribute these revenues to better reduce overburden and overreliance on property taxes.
- Reframe the state-local fiscal relationship to more transparently reflect local government generation of state revenues and the full array of state support programs to local government, including dedicated revenues for dedicated purposes (highways and pensions), fiscal disparities (which applies to the seven county metropolitan region and Iron Range), county program aid and LGA.

### Minneapolis priorities:

- Diversify revenue sources available to cities so that they have a wider variety of tools to provide public service and capital needs, including with sales tax, street utilities, and impact fees.
- Reduce statutory exemptions to property tax. Ensure, when exemptions are granted, that local government is authorized to collect payments for services. Establish criteria for granting exemptions and require local government approval.
- Repeal the provision of the 1986 Convention Center law (Laws 1986 Chapter 396) that reduces
  the Minneapolis lodging tax when the sum of other sales taxes applied to lodging exceed 13%.
  Minneapolis is the only city with a cap.

#### Minneapolis supports:

- Restructure the property tax relief programs to base property tax relief primarily on the income
  of the owner-occupant of residential property.
- Build property tax relief into the state's income tax system, to ensure property tax relief is directly provided to the property owner-occupant or renter without need for additional application processes.
- Adequate funding for the renter's credit/refund.
- Repeal of state sales tax on local government purchases.
- Repeal of sunset date of June 30, 2015 for the Historic Structure Rehabilitation credit.

## Minneapolis opposes:

- Adoption of constitutional and statutory amendments, including levy limits that would limit government revenues and authority.
- Unfunded mandated services or procedures imposed by the legislature on local governments.